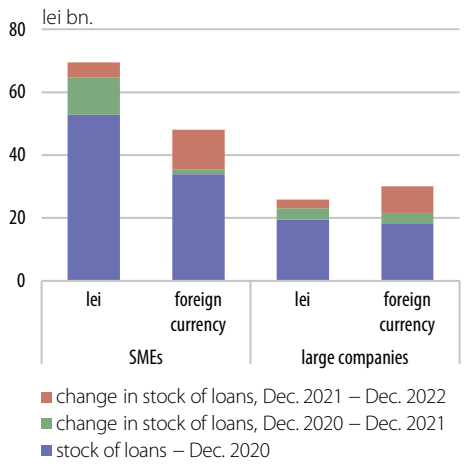
Box 7. Developments in foreign currency lending to non-financial corporations

In 2022, the spread between interest rates on new leu- and EUR-denominated loans granted to non-financial corporations widened considerably, reaching 5.4 percentage points in December 2022 (+3.4 percentage points from December 2021). This also reflected in lending to the real sector, particularly through the increase in the flow of new foreign currency loans to non-financial corporations. Specifically, the share of new foreign currency loans to this sector ran at 70 percent in 2022 as against 48 percent in 2021. As a result, the stock of foreign currency-denominated loans accounted for 75 percent of the rise in total credit to both large companies and SMEs in 2022 as compared to the 2021 contributions of merely 11 percent (SMEs) and 48 percent (large companies) (Chart A).



Source: NBR, MF, NBR calculations

Chart A
Loans to non-financial corporations by company size and currency

In 2022, the flow of new foreign currency-denominated loans was largely channelled to unhedged, non-foreign trade companies (lei 15 billion, 69 percent of total new foreign currency credit to non-financial corporations). As for foreign trade companies, net exporters took new foreign currency loans worth of lei 3.9 billion (18 percent of total flow of foreign currency credit).

Net importers, which are the most exposed to currency risk, being affected by a potential exchange rate depreciation through increases in commodity and raw material costs and in debt servicing, raised loans in amount of lei 2.7 billion (13 percent of total flow of foreign currency loans). The share of foreign currency loans in total credit widened in the period from December 2021 to December 2022, i.e. by 10 percentage points for net importers, by 5 percentage points for non-foreign trade companies and by 3 percentage points for net exporters.

In 2022, the NPL ratio for foreign currency loans was lower than that for leu-denominated credit (3.5 percent versus 4.9 percent), the difference being larger for SMEs (4 percent versus 5.8 percent). As for large companies, the NPL ratios were relatively similar (2.4 percent as against 2.8 percent).

When taking loans in a currency other than the local currency, companies are exposed to currency risk, which could significantly affect their capacity to service debt in case of a domestic currency depreciation. Although lending in foreign currency (especially in euro) currently has some advantages in terms of funding costs in the short term, the currency risk costs could be higher in the medium run, more than offsetting the initial benefits. A high volume of foreign currency loans would exacerbate the negative impact of a depreciation on the economy via the credit risk channel.